

GLOBAL AND REGIONAL ORDERS

ENERGY GEOPOLITICS IN THE BALKANS

Geopolitics and European Integration of the Western
Balkans

Sead Turčalo
April 2020



The Western Balkans remain poorly connected in terms of infrastructure, with an atomized energy market, burdened with political instability, which negatively affects the region's energy security.



There is a lack of clear and enforceable measures regarding the preparedness of the energy systems of the countries of the region to respond to potential shocks in case of interruption of gas supply or any other energy shock.



External actors, most notably Russia and China, exploit the clientelist approach of political elites in the region thus opposing the implementation of the goals of the Energy Community in the Western Balkan countries.

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In cooperation with:



VANJSKOPOLITIČKA INICIJATIVA BH
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1

INTRODUCTION

The energy sector and energy policies and strategies may be analyzed through different approaches: economic, environmental, geopolitical and other approaches. This analysis will focus on the geopolitical approach. In this approach, countries and actors that could be referred to as unitary or unitary-like actors have a decisive influence in the energy sector. The geopolitical approach to energy issues, or energy geopolitics, is inextricably associated with energy security¹, which within this approach is the primary goal of any energy policy; unlike the economic or environmental approaches, which favor issues of sustainability, competitiveness, etc. (see Siddi, 2017:3).

The geopolitical approach primarily observes the geographical position of a particular country or region from the perspective of the location of energy resources it needs: analyzing their accessibility, the actors that control those resources, their price, existing and alternative transport routes, relations in the regional and global markets, market mechanisms and the regulatory framework that may influence the behavior of actors, availability and management of own energy resources, as well as political decisions and the manner and framework within which they are made.

The first part of this analysis will briefly describe the energy systems in the Western Balkans countries. The second part of the analysis will focus on other geopolitical aspects such as the geographical location of the region from the perspective of energy resources needed, existing and alternative transport routes, the role of different actors in the energy sector of the region, and the potential of the EU integration processes in limiting the activities of these actors and integrating the region in terms of energy.

¹ Kruyt (2009) notes four dimensions of energy security – the so-called “4 As” concept. This concept involves availability, which means the physical existence of energy generating products; accessibility, which refers to geopolitical aspects that affect access to energy resources; affordability, i.e. the costs associated with the entire cycle of supply and consumption; and acceptability, which includes impact on climate change, environmental degradation, human rights, and political stability.

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THE ENERGY SYSTEM IN THE WESTERN BALKANS REGION

The countries of the Western Balkans Six, excluding Albania, were part of the unified energy system of Yugoslavia before gaining independence. The characteristic features of this system, which are reflected in these countries to this day, were an energy-intensive economy, an unreliable power transmission system, a low level of gas and oil reserves, and diversification of sources of supply for these resources (see Curtis, 1992). The most important segments of the energy system were built during the 1960s and 1970s. Deteriorating infrastructure, combined with the lack of upgrading and inadequate maintenance over the past three decades, significantly affects the efficiency and capacity of the energy systems of the countries in the region (see Vasquez et al., 2018:10). In addition, during the Yugoslav wars the energy infrastructure sustained major damage, while the regional energy market was atomized.

One consequence of the outdated energy infrastructure and insufficient maintenance of the energy system is the low level of energy efficiency. Compared to the European Union average, energy intensity, which is a measure of the quantity of energy consumed per unit of gross domestic product, is several times as high in the countries of this region. In Serbia and Kosovo, energy intensity is four times as high as the EU average, while the economy of Bosnia and Herzegovina is even more energy intensive (*Ec. Europa. Eu*, 2019).

In addition to all the above features of the energy system, the high energy intensity is also a result of the unfavorable energy mix in the Western Balkans region. The energy mix is dominated by solid fuels such as coal (black coal and lignite) with around a 50% share in the total consumption of energy-generating products, while the remainder consists of natural gas, oil, and renewable energy sources.

Coal is predominantly used for electricity generation or for individual household heating. The total electricity capacity of the region is approximately 18,000 MW, with electricity generation evenly distributed across hydro and thermal sources (USAID, 2017). Coal has a particularly high share in electricity generation in Kosovo, reaching 95%, while in Bosnia and Herzegovina and in Serbia it reaches nearly 70%. The share in North Macedonia and Montenegro is slightly lower, while Albania is completely reliant on its hydropower.

In spite of the fact that such an electricity generation mix plays a significant role in air pollution and environmental degradation, and prevents the fulfillment of commitments assumed under the Paris Agreement and the Energy Community membership, the Western Balkans countries continue to build or plan to build new coal-fired power plants.

Figure 1:
Gross inland energy consumption and energy intensity of the economy in Western Balkans countries and the EU-28

Gross inland energy consumption and energy intensity of the economy, 2007, 2012 and 2017

	Gross inland energy consumption (thousand toe)			Energy intensity of the economy (kgoe per EUR 1 000 of GDP) (*)		
	2007	2012	2017	2007	2012	2017
EU-28	1 817 710	1 692 269	1 674 609	139	130	118
Montenegro	1 144	1 071	1 038	380	341	282
North Macedonia	3 100	3 004	2 762	474	415	334
Albania	2 057	2 023	2 404	263	216	228
Serbia	16 601	14 607	15 748	545	457	453
Turkey	101 403	117 851	150 435	182	174	166
Bosnia and Herzegovina (*)	:	:	6 767	:	:	473
Kosovo (*)	2 049	2 384	2 569	:	505	460

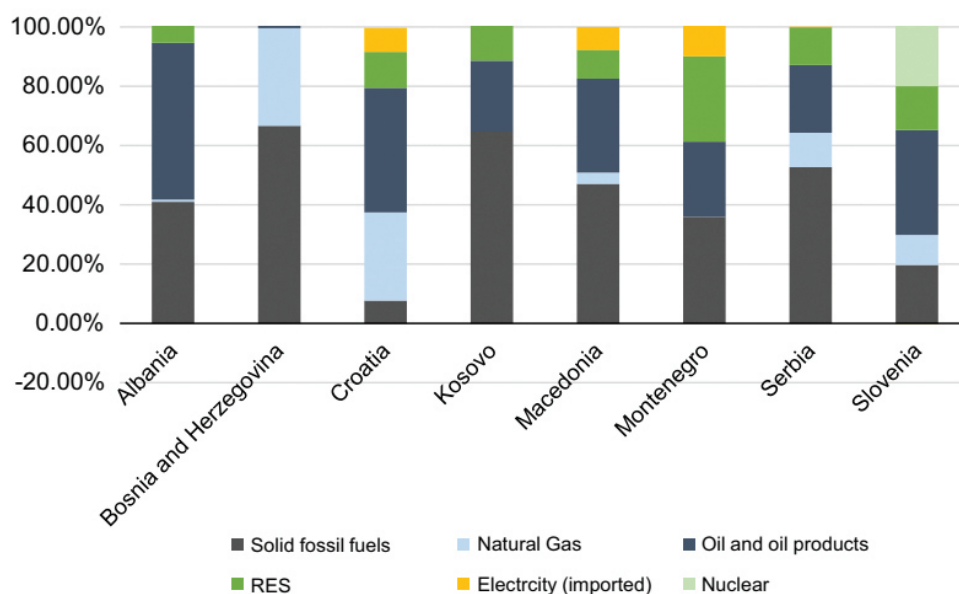
(*) Based on chain-linked GDP volume data with 2010 reference year.

(*) 2016 instead of 2017.

(*) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Source: Eurostat (online data codes: nrg_bal_s and nama_10_gdp)

Figure 2:
Energy mix in the Western Balkans (including Croatia and Slovenia) (consumption of energy-generating products)



(Dunjić, 2016:1027)

The planned capacities in Bosnia and Herzegovina are 2,000 MW. In Kosovo, a contract was signed for the construction of a 500-MW coal-fired power plant near Pristina, with further coal-fired power plants planned in Serbia and Montenegro. While it is difficult to reliably predict how many of these planned coal-fired power plants will be built, it is clear that the countries of the region, despite having energy strategies that prioritize the reduction of fossil fuel emissions and of electricity generation from fossil fuels, still view coal as a primary contributing factor to the sustainability of their power generation systems. Compared to the average among EU member states, countries of the region consume 2.3 times more coal, while the share of gas is 50% lower.

Of all the countries in the region, it is only Bosnia and Herzegovina that has enough electricity for exporting, while Albania, Macedonia, and Kosovo are all importers.

A particular problem faced by all countries of the region is energy efficiency, reflected primarily in energy losses in electricity distribution. The average losses are 10%, reaching up to 30% in Albania and Kosovo (Sanfey, 2016:31). Significant losses result from inadequate heating systems and thermal insulation of buildings, since about 50% of all energy in the region is consumed in individual housing units and residential buildings, with the industry and transport sectors accounting for the rest of consumption (Vienna, 2015: 19). Compared to the EU average, CO₂ emissions are three times as high in the countries of the region.

Considering that all the countries, with the exception of Albania, are planning to build or are building new coal-fired power plants, the opportunities for an energy transition toward a significant share of renewable sources in the energy mix are limited. According to the updated March 2019

Figure 3:
Electricity generation mix in the Western Balkans countries and the EU-28

Country	Coal	Hydro	Oil	Gas	Nuclear energy	Wind	Solar energy	Biofuels
Albania	0	100	0	0	0	0	0	0
Bosnia and Herzegovina	68	32	0.3	0.1	0	0	0.1	0
Kosovo	95	4.5	0.3	0	0	0	0	0
Macedonia	51	34	2	10	0	2	0.4	6
Montenegro	41	59	0	0	0	0	0	0
Serbia	69	29	0.1	0	0	0.07	0.03	0.09
EU-28	23	12	2	19	26	9.5	3.5	5

(Esser et al., 2018:16-17)

Figure 4:
Coal-fired power plants in the Western Balkans region that are planned or are in an advanced stage of development with strong political support for their construction

1st generation	MW	2nd generation	MW
Stanari, RS, BIH – in operation since September 2016	300	Kolubara B1, SRB	350
Ugljevik III, RS, BIH	600	Kolubara B2, SRB	350
Banovići, FBiH, BIH	350	Stavalj, SRB	300
Tuzla 7, FBiH, BIH	450	Kovin 1, SRB	350
Kakanj 8, FBiH, BIH	300	Kovin 2, SRB	350
Kosova e Re, KOS	500	Nikola Tesla B3, SRB	750
Pļevlja II, MON	254	Gacko II, RS, BIH	350
Kostolac B3, SRB	350		
Oslomej reconstruction, MK	129.5		

(Source: bankwatch.org; <https://bankwatch.org/blog/western-balkans-are-massively-expanding-coal-power-but-the-new-plants-may-have-to-be-closed-again-soon> (retrieved on: 20.8.2019))

Energy Community Secretariat report on the implementation of the renewable energy *acquis*, only Montenegro has managed to reach the target set for 2020 under the Renewable Energy Directive (2009/28/EC), but even here it was a case of inconsistency in the data, since the report submitted by the country contained different data from that presented in the EUROSTAT data for 2015.

It should be noted here that the targets set for the Western Balkans countries in terms of the share of renewable energy in the total energy consumption by 2020 are significantly higher than the target set for EU member states, which was set at 20%, due to the fact that the countries of the region originally had a higher percentage of this type of energy in their gross consumption (Bankwatch, 2019:11).

According to the data and estimates of the International Renewable Energy Agency (IRENA), the region has the capacity to generate approximately 12.2 GW of electricity through wind farms (*Intellinews.com*, 2020). The highest potential capacity is in Serbia (5.6 GW) and in Bosnia and Herzegovina (2.5-5.9 GW), while Montenegro has a potential capacity of 1.7 GW and Albania of 153 MW. The extent to which this potential remains untapped is reflected in the fact that Serbia generates the highest amount of wind

Figure 5:
Overview of changes in the share of renewable sources in electricity generation in the Western Balkans countries relative to the 2020 target

Country	2009 - percentage share of renewable sources	2017 - percentage share of renewable sources	2020 - target
Albania	31.2	34.6	38
Bosnia and Herzegovina	34.0	35.9	40
Kosovo	18.8	22.9	25
Montenegro	26.3	40	33
North Macedonia	21.9 later reduced to 17.2	19.7	28 later reduced to 23
Serbia	21.2	20.6	27
EU-28	23	12	2

(Energy Community Secretariat, mart 2019)

energy among the countries of the region, but in doing so it uses only 4.47% of its potential capacity (see Energy Community Secretariat, 2019:159). The situation is similar in terms of solar energy. IRENA estimates that the region could generate about 12 GW of electricity from solar (Serbia 6.9 GW, Bosnia and Herzegovina 1 GW, Albania 1.9 GW, Macedonia 1.2 GW, Montenegro 300 MW, Kosovo 436 MW); however, according to the Annual Implementation Report of the Energy Community Secretariat, the region currently generates a total of 67 MW from this source.

Currently, there are a number of projects of so-called wind farms that are financed or co-financed by the EBRD, German development bank, French development agency and certain other multilateral financial institutions.

Another option for the de-carbonization of the energy sector is the expansion of the gas infrastructure, which depends on external projects: these will be analyzed below and are beyond the control of the countries of the region.

Figure 6:
Comparative overview of installed solar and wind energy capacity in 2018 and planned capacity by 2020

Country	Installed wind power capacity 2018 (MW)	Planned wind power capacity by 2020 (MW) according to NREAP [*]	Installed solar capacity 2018 (MW)	Planned solar capacity by 2020 (MW) according to NREAP
Albania	0	30	1	50
Bosnia and Herzegovina	51	330	18.15	16.2
Montenegro	72	151.2	0.4	10
Kosovo	33.75	62	6.6	30
North Macedonia	36.8	50	18.49	25.4
Serbia	239	500	8.7	10

* NREAP – National Renewable Energy Action Plan

(Bankwatch, 2019:43)

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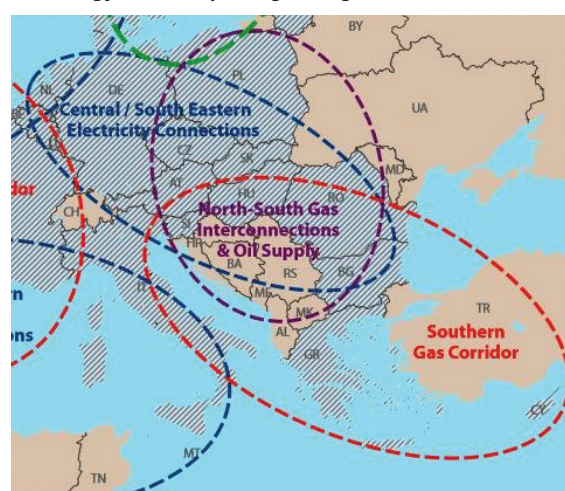
WESTERN BALKANS – BETWEEN THE REALITY OF ENERGY DEPENDENCY AND THE POTENTIAL FOR BECOMING AN ENERGY HUB

By virtue of its geographical location, the Western Balkans region is a potential energy hub because three European Union energy corridors pass through it: The Central-South Eastern Electricity Connection; the North-South Gas Interconnections and Oil Supply; and the Southern Gas Corridor (see Map 1).

There is, however, a significant difference between the actual, current position of the region viewed from the perspective of the location of energy resources needed, transport routes, etc. and the potential of the Western Balkans to transform itself into an energy hub. With the exception of Albania, the countries of the region depend on the Russian Federation for their oil and gas supply, while Kosovo and Montenegro have no developed gas infrastructure.

Particularly interesting from the geopolitical perspective, given the fixed nature of transport routes and their resulting potential vulnerability to political conflicts or other security hazards, is gas supply. Even though the Western Balkans countries are minor consumers of natural gas, which accounts for 6% of the total energy consumption of energy-generating products in the countries of the region, there is a number of projects and initiatives aimed at diversifying the region's sources and supply routes for this energy-generating product. At the moment, no country in the Western Balkans has diversified sources or supply routes when it comes to natural gas.

Map 1:
EU energy corridors passing through the Western Balkans



Below we will briefly analyze some of the key gas pipelines that would allow the countries of the region to diversify their natural gas supply sources and routes, which would in turn result in lower prices for this energy-generating product and stimulate the development of gas infrastructure in the region. Of the countries in the region, Serbia has the most developed gas infrastructure, while countries such as Montenegro and Kosovo have no gas infrastructure whatsoever.

Figure 7:
Primary energy production in the Western Balkans countries 2007 – 2012 – 2017

Primary energy production, 2007, 2012 and 2017

	Total production (thousand toe)			Share of total production, 2017 (%)			
	2007	2012	2017	Solid fuels	Petroleum products	Gas	Others
EU-28	864 157	798 106	758 116	17.2	9.7	13.6	59.5
Montenegro	530	704	631	51.5	0.0	0.0	48.5
North Macedonia	1 552	1 561	1 161	73.4	0.0	0.0	26.6
Albania	1 050	1 670	1 670	4.0	57.4	4.4	34.1
Serbia	10 481	10 793	10 496	68.8	9.4	3.7	18.1
Turkey	27 469	30 499	36 501	43.0	7.4	0.8	48.8
Bosnia and Herzegovina (*)	–	–	4 742	74.2	0.0	0.0	25.8
Kosovo (*)	1 426	1 749	1 793	78.7	0.0	0.0	21.3

(*) 2016 instead of 2017.

(*) This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Source: Eurostat (online data code: nrg_bal_s)

Map 2:
Route of the Trans-Anatolian Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP) with the connection point and the source.



From a regional perspective, there are five gas pipeline projects that are of exceptional significance. These are, first and foremost, TANAP, TA, IAP and TurkStream gas pipelines, as well as the floating LNG terminal project on the Krk island.

The significance of the Trans-Anatolian Pipeline (TANAP) stems from the fact that it is connected at the Greek-Turkish border to the Trans-Adriatic pipeline, which will transport gas from Azerbaijan through northern Greece, Albania and the Adriatic Sea and from there all the way to southern Italy, where it will connect to the gas network there.

Among the Western Balkans countries, the TAP is particularly important for Albania, as it will place the country in a strategically important position on the energy map of Europe. The Trans-Adriatic gas pipeline² would have a significant impact on Albania's internal energy market given its present lack of a developed gas infrastructure. This new geo-strategic position of Albania in the European energy market could conceivably have a significant impact on its European integration (USAID, 2017).

The TAP itself is part of the strategic Southern Gas Corridor. Given the level of the region's dependence on gas from the Russian Federation, the Trans-Adriatic gas pipeline would reduce this dependence and would in addition satisfy the need of these countries to build cross-border gas infrastructure. This is particularly relevant in the cases of Serbia and North Macedonia, which could thus end Gazprom's current monopoly in these countries, while Kosovo is yet to develop its gas infrastructure. Initially, the gas pipeline capacity would be 10 bcm per year with the intention of expanding the capacity to 20 bcm. According to the latest data, a total

of 90.7% of the pipeline has been built (Project Progress, TAP, 2019) with the first market test launched on 01 July, through which natural gas shippers can gain access to new, long-term capacity in TAP, thereby enabling future expansion of the pipeline capacity. From Bosnia and Herzegovina's perspective, the TAP is significant because it has rekindled interest in the Ionian-Adriatic pipeline (IAP).

The IAP is particularly interesting because its construction would effectively be a triumph of geopolitical over economic thinking since, viewed from an economic perspective, the

Map 3:
Planned route of the Ionian-Adriatic pipeline



Ionian-Adriatic Pipeline does not have adequate justification. The IAP would connect the markets of Albania, Montenegro, the southern part of Bosnia and Herzegovina, and Croatia to the Southern Gas Corridor. In 2014, the Western Balkans Investment Framework (WBIF) funded a feasibility study that showed that the 540 km gas pipeline would cost EUR 618 million. What remains unclear is the source of funding, and the estimated timeframe for the final investment decision. The key problem is the fact that Albania and Montenegro do not have a gas market, while the gas markets in Bosnia and Herzegovina and North Macedonia are too small. In spite of this, three of these four countries are the biggest advocates of this project. Albania would like to renew its gas infrastructure. Montenegro seeks to start building its gas infrastructure, while Bosnia and Herzegovina would like to

² The TAP is part of the strategically significant Southern Gas Corridor. The Southern Gas Corridor was announced as early as the EU Second Strategic Energy Review in 2008 and was primarily driven by the aftermath of the 2006 Russia-Ukraine crisis, the interest of Western European energy companies to be supplied with gas from the Caspian region (Azerbaijan, Iran, Iraq and Turkmenistan), as well as the long-term goal of the US to establish an East-West corridor from the Central Asia via the Caucasus and Turkey to Europe. Although all interest in the Southern Gas Corridor was practically lost after the definitive cancellation of the Nabucco project in 2012, the new Russian-Ukrainian crisis of 2014 followed by the annexation of Crimea has renewed interest in the project (see Siddi, 2017:9).

Map 4:

Overview of the Southern Gas Corridor with all pipelines and interconnectors

mitigate the current economic and geopolitical ramifications of the fact that it has only one source and route of supply, which is Russia via Ukraine, Hungary and Serbia.

The Ionian-Adriatic pipeline is currently on the list of Projects of Mutual Interest (PMI); it was on the list of Projects of Common Interest (PCI) back in 2013, but was removed from the list in 2017 when the requirements were tightened. In order to meet those requirements, a project must have a significant impact on at least two EU member states. Currently it has significance only for Croatia as an EU member state, as this is a two-way gas pipeline that could also transmit gas from Croatia to Albania and would be connected to the LNG terminal on the island of Krk, and would serve to transmit gas to other markets along its route. The planned capacity is 6.5 bcm per year.

Looking at the entire Southern Gas Corridor, there is also the question of whether the EU and thus the Western Balkans could be left with a diversified yet uncertain supply route that runs along frozen conflict zones (see Map 4) such as Nagorno-Karabakh, very close to the South Ossetia, as well as the region of Turkey where there had been clashes with the Kurdistan Workers' Party, during one of which the South Caucasus pipeline was damaged in 2015 (Siddi, 2017:11).

The TurkStream, which can be considered Russia's response to the Southern Gas Corridor, could be significant for the Western Balkans region from the perspective of route diversification, especially in the event of negative developments in the supply of Russian gas via Ukraine, notwithstanding the fact that on 31 December the transit agreement between Gazprom and the Ukrainian Naftogaz was renewed for another five years (Astrasheuskaya, Chazan & Olearchyk, 2020).

The total capacity of the twin gas pipeline TurkStream 1 and TurkStream 2 would be 31.5 bcm per year. For the Western Balkans countries, it is TurkStream 2 that is relevant, as the capacity of the first pipeline, which became operational early this year, will be used to supply the Turkish market, the largest customer of the Russian Gazprom after the German market.

The transport route of the second pipeline, i.e. TurkStream 2, which extends from Turkey toward the South European and Central European markets, will run through Bulgaria, Serbia and Hungary, all the way to Austria. This route is very similar to the one that was planned for the South Stream (CRS, 2019). The European regulatory framework could turn out to be a key challenge for TurkStream 2 to continue toward the Southern and Central Europe, because Russia expects, having learned lessons from the South Stream project, to be exempted from the rules by the European Commission.

The LNG terminal on the island of Krk is also significant for the Western Balkans region, particularly in combination with the IAP. The planned capacity is 2.6 bcm per year, with additional expansion potential if the planned pipelines are constructed. The final investment decision was made in February of this year, during which period some 20% of the capacity of the terminal was leased, which led to discussions in the Republic of Croatia about the profitability of this investment.

A 2017 USAID study showed significant offshore resources in the Western Balkans region that could make a long-term contribution to its geopolitical importance and could have economic implications. As early as 2013 Montenegro invited bids and three international consortia responded, and an agreement was reached with Energean in 2016 for two offshore blocks. Onshore and offshore exploration is also being conducted in Albania.

4

THE ROLE OF EXTERNAL ACTORS IN THE ENERGY GEOPOLITICS OF THE WESTERN BALKANS

Key external actors in energy geopolitics of the region include the EU, Russia and China. All three of these take part in different forms of financing and building of energy infrastructure in Western Balkans countries; however, their focus in the energy sector is drastically different.

The European Union is the actor that has the widest range of instruments at its disposal to influence energy geopolitics in the region. Considering the strong aspirations of Western Balkans countries to become EU member states, the EU is able to influence this process, where Chapter 15 of the *acquis* in particular influences the adoption of energy policy measures. In addition, the European Union also has the Energy Community at its disposal, which, although it has a separate institutional structure, is actually an additional multilateral instrument for implementing the energy policy regulatory framework. The Energy Community was established in 2006 and is composed of EU member states and the countries of the Western Balkans Six, as well as Ukraine, Moldova and Turkey.

Upon joining the Energy Community, the contracting parties committed to the adoption of a whole set of legislation and approximation to the *acquis communautaire* with the ultimate goal of establishing “an integrated market in Southeast Europe anchored to the EU and achieving certain standards of liberalization, investment and regulatory maturity so as to constitute [...] the Energy Policy of Europe” (Lindstrom, 2011:203).

What makes it difficult for the European Union to implement its energy policy regulatory framework is the different conceptual understanding of energy security between the countries of the region and the European Union. During the past five years, the EU has increasingly focused on the environmental dimension of energy security and its implications for human security, while reducing its focus on the aspect of energy supply security. On the other hand, the countries of the region pay only lip service to the environmental aspects of energy security, prioritizing the meeting of their internal demand from sources that are particularly abundant in the region: black coal, lignite and hydro.

As noted by Nechev and Svilanis (2017:3), the EU is focused on infrastructure projects that can contribute to significant

de-carbonization within the energy sector (hydro, renewable sources, natural gas, etc.), while China prefers mining and thermal power generation. Russia focuses on the gas and oil sectors and currently has full control of these sectors in Serbia and Bosnia and Herzegovina.

Between 2005 and 2013, Russia invested EUR 598.4 million in Serbia (4.5% of total foreign investment in Serbia), most of which was in the gas and oil sectors, including the acquisition of Beopetrol and the majority interest in the Naftna Industrija Srbije oil company (NIS). Gazprom has also established a Gastrans subsidiary with Srbijagas. Investments in other areas are close to insignificant. The Russian oil company also has exclusive rights to extract oil and gas in the Republika Srpska entity, where it has a monopoly in the oil industry. The Jadran Naftagas company, which is owned by NIS (66%) and NjeftgazInKor (34%), has a concession for oil exploration in the entire Republika Srpska. At the same time, NjeftgazInKor is the 100% owner of Optima Group, which operates the Bosanski Brod oil refinery and the Modriča motor oil refinery. Russia also controls the Trans-Balkans pipeline, the only route supplying gas to North Macedonia (se Rustemi, De Wijk, Dunlop, Perovska & Palushi, 2019).

This dominant position in the energy sector in the region is important to Russia because of the associated political influence, which is reflected in the fact that already in 2013 Russia designated the Western Balkans as a region of strategic importance in its foreign policy strategy. On the other hand, due to the fact that the Western Balkans is a small gas consumer and that the region has an under-developed gas infrastructure as well as extensive projects for the diversification of supply routes and sources with substantial EU support, this level of influence in the energy sector should not be overestimated; nonetheless, it should also not be underestimated as one of the factors in the overall influence in the region.

Implementation of the EU's de-carbonization policy in the region's energy sector is also opposed by China's financial interference, in the form of loans extended by Chinese state-run banks, which are given against guarantees supplied by local governments for the construction or expansion of coal-fired power plants and open-pit mines. Chinese investment in the region has been growing steadily

since the inauguration of the Belt and Road Initiative as a global development strategy in 2013. Since then, Chinese companies have signed investments in the energy sector in Serbia worth several hundred million euros. The investments are made primarily in coal and lignite-fired power plants aimed at “decreasing the gas imports and enabling cheaper heat” for Belgrade (Rrustemi, De Wijk, Dunlop, Perovska & Palushi, 2019:94). The Export-Import Bank of China has provided most of the funding for the expansion of the open-pit lignite mine and the construction of a new lignite-fired power plant in Serbia worth USD 715 million (see Nechev and Svilans, 2017). The Exim Bank of China has loaned USD 293 million to Serbia to install desulphurization equipment at the Kostolac B thermal power plant manufactured by China’s CMEC company (China Machinery and Engineering Corporation). China also showed interest in the Pljevlje II thermal power plant, a project that was canceled by the Montenegrin Government late in 2019.

In Bosnia and Herzegovina, a Chinese loan has been used to build the Stanari thermal power plant. In the event the EFT Group, the owner of the power plant and the holder of the lignite extraction concession, is unable to repay the loan, the Chinese development bank will take over the power plant and the lignite concession.

Another project in Bosnia and Herzegovina is the construction of Unit 7 of the coal-fired power plant in Tuzla. The Energy Community considers this case to involve illicit state aid because the Federation of BiH Government has provided guarantees for the Export-Import Bank loan for the amount of EUR 614 million. The decision made by the majority of representatives in the Parliament of the Federation of BiH to support this kind of construction of Unit 7 has resulted in a procedure being initiated against Bosnia and Herzegovina by the Energy Community. Under European Union and Energy Community provisions, countries may guarantee up to 80% of a loan, while the case of Unit 7 involves a 100% government guarantee for the Chinese loan (Galop, 2018).

In addition to elements of illicit state aid, the Energy Community also listed in its letter some of the key problems posed by such an investment in terms of the country’s energy transition. These problems are also applicable to the rest of the region where Chinese investments target these kinds of projects, and they primarily involve the fact that such projects mean decades of exposure to air pollution for citizens, combined with the lack of willingness on the part of regional political elites to address the real need for energy transition from fossil fuels to clean and renewable energy sources.

The Chinese company Geo-Jade Petroleum has acquired a controlling stake in two oil fields in Albania. In all cases of Chinese investment in the region, the comparative advantage over the European Union is the fact that local governing structures prefer swift loan-approval procedures without any requirements attached, which is typical of loans

extended by international monetary institutions and the EU. In addition, as noted by some authors (see Rrustemi, De Wijk, Dunlop, Perovska & Palushi, 2019:93), Chinese investments in the region are thought to be likely to increase corruption. This is supported by the fact that some Chinese projects have been marred by non-transparent procedures, such as the Kostolac B3 project in Serbia, for which China Exim Bank provided a USD 608 million loan on the basis of a bilateral agreement between Serbia and China, which stated that there would be no need to invite bids for this project (Esser et al., 2018:27).

In spite of the continued insistence that they do not oppose the European integration of countries of the region and that they actually support it, it is clear that the investment strategies of the Russian Federation and China, in the energy sector as well as in other related infrastructure projects, aim to influence, among other things, the implementation of the European energy strategy on the outskirts of the European Union. The distinguishing difference between these two countries so far is that the Russian approach combines political and economic influence, while China is currently focusing on economic influence with certain forms of soft power being projected.

5

CONCLUSION WITH RECOMMENDATIONS

The Western Balkans remains a region poorly connected by infrastructure, with an atomized energy market burdened by political instability, which has a negative impact on the energy security of the region. In terms of energy security in the future, the region will continue to face three fundamental challenges.

The first concerns insufficient investment in energy infrastructure, which converges with the requirements of the EU's energy and climate targets by 2030. The second lies in the lack of clear and enforceable measures to ensure the preparedness of energy systems in countries of the region to respond to potential shocks in the event of an interruption to the gas supply or other types of energy shock.

The third challenge is reflected in the activities of external actors, who exploit clientelism of political elites in the region in order to oppose the implementation of Energy Community goals in Western Balkans countries.

This is further exacerbated by a divergent conceptual understanding of energy security among countries of the region compared to the EU, with priority being given to the availability of resources, investments, or loans for the energy sector without any required reforms, over the EU's understanding of the concept, which promotes energy transition and investments tied to reform requirements.

This understanding of energy security also indicates a fundamental difference in the approach to the region taken by different actors. While the EU's approach to the energy sector is normative with the consequent development of a regulatory framework, other actors follow a pragmatic geopolitical approach.

The only indication that the EU could opt for a geopolitical approach to the region in terms of energy, which would involve the construction of the Ionian-Adriatic gas pipeline, proved uncertain in 2017 when this project was removed from the list of Projects of Common Interest (PCI).

In order to fully leverage its potential as a (geo)political actor in the regional energy playing field, the European Union would need to move beyond its regulatory and technocratic approach to the energy sector by promoting projects such as the Ionian-Adriatic gas pipeline.

Furthermore, the European Union needs to actively promote and clarify the difference between its investments and loans for infrastructure development in the energy sector, which are substantially more favorable than loans and other lending from other actors (China, Russia).

In parallel with these activities, the EU should become more involved along with its transatlantic partners as well as the United Kingdom, which is expected to increase its individual involvement in the region following the Brexit process, in order to overcome disputes between Kosovo and Serbia in electricity transmission, which is one of the key obstacles to the integration of the regional energy market.

It is necessary to continue investing in and encouraging infrastructure projects in renewable energy sources, particularly in wind and solar instead of hydro, because the construction of a large number of mini hydro power plants in countries of the region could have long-term negative effects on the surrounding ecosystem.

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ENERGY GEOPOLITICS IN THE BALKANS

Geopolitics and European Integration of the Western Balkans



The Western Balkans remain poorly connected in terms of infrastructure, with an atomized energy market, burdened with political instability, which negatively affects the region's energy security.



There is a lack of clear and enforceable measures regarding the preparedness of the energy systems of the countries of the region to respond to potential shocks in case of interruption of gas supply or any other energy shock.



External actors, most notably Russia and China, exploit the clientelist approach of political elites in the region thus opposing the implementation of the goals of the Energy Community in the Western Balkan countries.



In order to fully exploit its potential (geo)political actor in the regional energy area, the European Union should move beyond its regulatory and technocratic approach through the affirmation of projects such as the Ionian-Adriatic Pipeline.

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